



Internal Audit Report

Sheriff's Warehouse and Food Services

April 2003



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April 9, 2003

Fulton Brock, Chairman, Board of Supervisors
Don Stapley, Supervisor, District II
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We have completed our FY 2002-03 review of the Maricopa County Sheriff's Office (MCSO) Warehouse and Food Services operations. The audit was performed in accordance with the annual audit plan that was approved by the Board of Supervisors.

The highlights of this report include the following:

- County surplus lacks effective monitoring controls and significant weaknesses were noted with surplus sale cash receipts.
- Processes in place do not adequately safeguard and properly value inventories.
- MCSO Distribution division maintains effective documentation for its transportation and delivery operations and appears to comply with federal and state regulations.

Attached are the report summary, detailed findings, recommendations, and Sheriff's Office response. We have reviewed this information with the department Directors and Managers and appreciate the excellent cooperation provided by management and staff. If you have questions, or wish to discuss items presented in this report, please contact Joe Seratte at 506-6092.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

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Executive Summary

Surplus Sale Cash Receipts (Page 6)

Procedures for surplus sales' cash receipts reflect significant control weaknesses that could result in County losses. The Maricopa County Sheriff's Office (MCSO) has not followed County policies or established effective controls over cash custodians and cash handling. Ineffective controls over cash receipts increase the potential for loss of funds and overpayment of taxes. MCSO should review and strengthen controls over cash and surplus sales.

Inventories (Page 8)

MCSO has not established adequate policies and procedures to safeguard inventories and items held for other departments. Control weaknesses were noted with inventory counts, reconciliation, segregation of duties, and valuation of donated food inventories. Inadequate controls increase the likelihood that the County will incur inventory losses. MCSO should strengthen control over inventory and non-inventory processes.

County Surplus (Page 12)

Surplus asset policies and procedures do not provide sufficient accountability for surplus assets sales, tracking of assets received, and accounting for special fund reporting requirements. Lack of accountability for assets increases the risk of misuse or theft. MCSO should review surplus procedures and controls.

Donated Food and Distribution (Page 14)

MCSO Distribution maintains documentation adequate to support the transportation and movement of goods and vehicles for its operation. MCSO appears to comply with federal and state regulations for intrastate and interstate transportation of goods. Documentation for donated food and associated reports appears accurate.

Vehicles and Expenses (Page 16)

We reviewed the MCSO Distribution vehicle and permit files, along with travel expenses. Distribution lacked documentation for three drivers' certifications for operating specific vehicles. Expense reimbursements were properly completed and approved, and P-card transactions were within established limits. Ineffective monitoring resulted in some reimbursements and transactions lacking adequate documentation. MCSO should strengthen controls over driver certifications and financial transactions.

Introduction

Background

Maricopa County Sheriff's Central Warehouse Operation was transferred to the Maricopa County Sheriff's Office (MCSO) from the Materials Management Department in 1997. The Sheriff's Warehouse (Warehouse) serves as the Central Stores function for MCSO and stores food, clothing, and detention and enforcement supplies. The Warehouse also holds limited supply inventories for other County departments. The Warehouse accepts County departments' surplus assets and arranges sealed bid sales. The Warehouse was included in the scope of the September 1997 MCSO internal audit. The MCSO Custody Command includes the Food Services Kitchen/Warehouse (Food Services), responsible for daily preparation of inmate meals, and the Distribution/Donated Food Program, responsible for procuring and transporting donated food, inmate meals, and other supplies.

Mission, Goals, and Performance Measures

MCSO's mission is to provide law enforcement, detention, and crime prevention services to the public so they can be safe and secure in the community. In conjunction with Managing for Results, MCSO has program activities for Centralized MCSO Operations and Custody Management. Centralized Operations provides a qualified workforce, and legal and loss prevention services to Sheriff's Command staff so they can achieve goals in compliance with legal standards. Custody Management provides a safe and secure environment to inmates and MCSO staff, so inmates can be properly and expeditiously processed through the system. Additionally, MCSO attempts to reduce overall expenditures by procuring donated goods and providing inmate labor to various agencies.

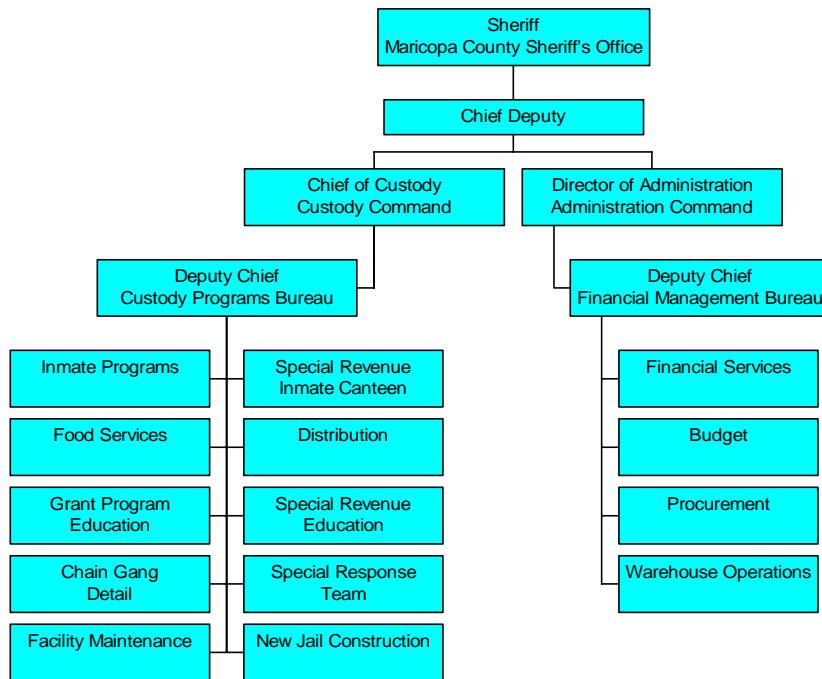
Performance Measure Certification

No performance measures are attached to the Warehouse operation. Several performance measures and key results are attached to the Food Services. Since this audit has a limited focus, on warehouse, inventory and distribution only, performance measures for Food Services will not be reviewed. However, this audit included reviews to ensure Food Services maintained detailed information for performance measure calculations.

Organizational Structure

MCSO has established an organizational structure and maintains organizational charts for its entire operation. The organization chart presented on the following page reflects a limited portion of the MCSO's organization, depicting the two divisions included in the current audit. The Warehouse is part of the Financial Management Bureau, reporting to Administration Command. Custody Command includes Programs Bureau/Community Action Program, which has oversight for Food Services and Distribution/Donated Food.

Maricopa County Sheriff's Office (Limited Organizational Chart)



Program Operations

Sheriff's Warehouse/Central Stores

The Warehouse provides central stores functions for MCSO and for some non-MCSO products. The Warehouse handles the order and inventory for MCSO Detention and Custody bureaus and identifies that inventory as “SS” inventory. The Warehouse also receives and carries inventory purchased and paid for by other departments, identified as “XX” inventory. MCSO Food Services owns the majority of XX inventory, which is housed at the Warehouse due to limited storage space at the Food Services kitchen. Warehouse inventories (SS and XX), carried on the County financial system, are updated based on purchases and distribution of inventory stock. The Warehouse provides some storage space for departments lacking space, identifying their goods as “non-inventory.”

The Warehouse accepts County departments’ disposed assets for surplus sale and organizes sales on a regular basis. Departments have surplus assets delivered to the Warehouse, with a Transfer Form including department name, asset numbers, and descriptions. Surplus sales, conducted by sealed bid, are held at the Warehouse and are advertised on the County EBC, in local newspapers, and with agencies previously participating in sales.

Food Services

MCSO Food Services and Distribution produce 28,000 inmate meals per day and ensure timely meal delivery to County jail and juvenile detention facilities. Daily meal production includes making and bagging next day sack lunches, preparing current day meals, and preparing next day meals using cook/chiller production equipment. MCSO uses approximately 100 inmates on each of three round-the-clock shifts to assist in meal preparation and reduce MCSO staffing costs.

Meals are currently prepared in the 30,000 square foot kitchen facility; originally intended to service 2,000 inmates versus the 8,000 inmates currently housed. Kitchen production areas and workspace is severely limited. Food Service inventories are currently stored at five locations, hampering inventory efforts and requiring daily transportation among locations. Food Services rents 15 cold storage trailers, parked at the kitchen warehouse dock and also stores at Madison Street jail. Large volume cold storage freezer space is rented from an East Valley vendor. A new Food Services' Facility scheduled to open in late Spring 2003, will have 137,000 square feet of space, including storage for all food inventories at the location

Donated Food and Distribution Programs

Through the Donated Food Program begun eight years ago, MCSO receives approximately one million pounds of donated food monthly. The Donated Food and Distribution Manager has established contacts with farmers, suppliers, restaurants, and others willing to donate food products. Distribution uses County or rented vehicles and MCSO personnel to procure all donated goods, to distribute and supply meals, and move inventories and supplies among MCSO locations. Distribution also drives out-of-state to procure donated food products from suppliers in California, New Mexico, Texas, and Oregon. Distribution drivers are governed by, and observe, Federal Regulations for drive and rest periods. MCSO also drives between County food bank locations, exchanging MCSO excess donations for food bank products. With MCSO available budgeted salaries, the Distribution Program cannot fill commercial driver positions with civilians. Therefore, most Distribution drivers are Detention Officers with commercial drivers' licenses and Food Manager Certification permits.



MCSO receives approximately one million pounds of donated food monthly.

This audit considered all aspects of the Sheriff's Warehouse and Food Service operations. However, due to resource constraints, we focused our efforts on the areas of highest risk. Future audits should consider Performance Measurement Certification, which was excluded from our current review.

Scope and Methodology

The objectives of this audit were to determine if:

- Inventories and surplus are safeguarded against waste, loss, and abuse.
- Warehouse inventories and related data are accurate, adequately documented, and appropriately valued.
- Donated food and Distribution programs are effectively monitored, tracked, and reported.

This audit was performed in accordance with Government Auditing Standards.

Issue 1 Surplus Sale Cash Receipts

Summary

Procedures for surplus sales' cash receipts reflect significant control weaknesses that could result in County losses. The Maricopa County Sheriff's Office (MCSO) has not followed County policies or established effective controls over cash custodians and cash handling. Ineffective controls over cash receipts increase the potential for loss of funds and overpayment of taxes. MCSO should review and strengthen controls over cash and surplus sales.

Criteria

Maricopa County Administrative Policy 2500 (Petty Cash) establishes minimum requirements over petty cash, change funds, and custodians. Funds must be secured in a safe or vault at the end of each business day. Departments must notify the Department of Finance (DOF) of a change in Custodians using Change of Petty Cash Custodian Form. Before transferring funds to a new custodian, an audit of all monies and receipts must be performed.

The American Institute of Certified Public Accountants (AICPA) recommends safeguards and procedural controls over cash and receipts. Significant controls include the following: 1) the duties of cash collection, receipts, deposit preparation, and recording should be adequately segregated; 2) incoming checks should be restrictively endorsed when received; 3) cash receipts should be controlled by cash register, pre-numbered receipts, or other equivalent means; 4) cash receipts should be deposited in a timely manner; undeposited cash receipts should be adequately secured and cash receipts should be balanced to daily cash collections on a regular basis.

The Arizona Department of Revenue requires tax payments to be made on a regular basis as designated on the Transaction Privilege Use and severance Tax Form (TPT-1).

Cash and Deposit Reviews

We reviewed surplus sales' cash receipt documentation for sales held between July and December 2002. Significant cash and control weaknesses were noted:

Change funds are not appropriately established. Department of Finance (DOF) records reflect no assigned change fund, or Cash Custodian, for the MCSO warehouse. However, cash amounts of \$300 to \$450 were listed as "new bank" on the Surplus Inventory Balancing Forms. The staff indicated these amounts are excluded from deposit and retained as change for the next surplus sale.

Cash is not adequately secured. Cash is physically maintained in the warehouse vault, in open cash trays and containers, accessible to all warehouse employees. Regular, periodic cash counts are not performed.

Surplus sale cash is not immediately balanced and deposited. As of 12/18/02, cash totaling \$4,200 from the 12/10/02 sale had not been counted. The deposit of these funds was not completed until 12/23/03. A review of other FY 2003 surplus sale deposits showed they were made nine to 34 days after final surplus payment due dates, averaging 16 days-to-deposit. In

addition, total receipts cannot be directly traced to cash deposits. Deposits include monies from prior cash on hand and do not equal surplus sale receipts.

Sales tax is not paid timely and is calculated incorrectly. Sales tax should be paid monthly based on Department of Revenue requirements, but is paid intermittently, one to two months after each sale. The tax due is calculated and paid on gross sales plus tax, rather than on gross sales alone. We estimate overpayments are in the range of \$100 per month.

Other control weaknesses include:

- Checks are not restrictively endorsed at the time of the transaction
- Surplus Bid Spreadsheets lack grand totals
- Bid Spreadsheet and Bid Receipt Sheet are not reconciled
- “No pay” items are not identified and accounted for
- Cash receipt numbers are not listed on the Surplus Inventory Balancing Forms
- Numbered receipts are not always used in sequential order
- There is a lack of written procedures

Loss Potential

Lack of adequate written cash procedures and accountability, combined with control weaknesses over cash receipts and other documentation, increases the potential for loss or theft of funds. Improper calculation of sales tax may cause overpayment of taxes, negatively impacting MCSO and County cash.

Recommendation

MCSO should:

- A. Prepare and submit applicable form(s) to DOF to establish a warehouse cash custodian and specified change fund amount and adhere to the established limit.
- B. Review County and AICPA policies and procedures for cash control and establish additional written policies and procedures, as needed, to ensure physical security is maintained over change fund and surplus sale cash receipts.
- C. Ensure surplus sale cash and checks are immediately counted and endorsed. Ensure deposits are immediately processed and match surplus sale receipts, and cash receipts are issued in sequential order showing cash or check notations.
- D. Ensure Bid and Receipt spreadsheets balance and reflect applicable sales receipt totals.
- E. Ensure sales tax is calculated and paid on gross sales, exclusive of taxes, for applicable bidders. Ensure sales tax is paid on a monthly basis.

Issue 2 Inventories

Summary

MCSO has not established adequate policies and procedures to safeguard inventories and items held for other departments. Control weaknesses were noted with inventory counts, reconciliation, segregation of duties, and valuation of donated food inventories. Inadequate controls increase the likelihood that the County will incur inventory losses. MCSO should strengthen control over inventory and non-inventory processes.

Inventory and Health Code Requirements

The *Uniform Accounting Manual for Arizona Counties* summarizes primary controls over inventories, including the following:

- Inventories should be physically secured and custody should be segregated from record-keeping. Physical counts of inventory should be done periodically and reconciliation performed to account for differences between quantity and records. Procedures should be in place to properly dispose of obsolete or spoiled goods. Annual physical inventory should be in writing, with count sheets or other appropriate documentation used, initialed and dated.
- Inventory records must be maintained to show stock numbers, descriptions of units, unit measure, and location
- Inventory should be valued on a unit-cost basis and the cost flow assumptions should be consistent and reasonable. Donated goods should be valued at fair market value (FMV) plus costs necessary to ready them for their intended use, or valued on other methodology to provide unit cost.

Maricopa County Health Code Chapter VIII, Section 1, Regulation 8 requires that food establishments keep food free from contamination, spoilage, adulterations, mislabeling and misbranding, and safe for human consumption. Food establishments are defined as “an operation that stores, prepares, packages, serves, vends, or otherwise provides food for human consumption, including transportation vehicles or central preparation facilities. Section 6, Regulation 5 states that no food shall be kept or permitted to remain in any refrigerated warehouse for a longer aggregated period than 24 calendar months except by written permission of the Department of Health.

ARS 36-974 requires that pet food and nonfood items shall be separated by a barrier or open space from product modules and bulk food.

Inventory Review

Food Services has no automated inventory software, therefore, extensive amounts of manual input and updates to Excel spreadsheets are required. Food Services' inventories are currently stored in five locations due to space limitations at the Durango kitchen, and MCSO Distribution frequently transports inventories between locations. Inventory findings were as follows.

- Food Services and Warehouse purchases and distribution are properly approved. The Food Services Coordinator and Accountant maintains well organized and documented inventory files to prepare and support the monthly Food Services Expenditure Reports. Food Services performs a monthly inventory of Durango kitchen perishable and non-perishable food, kitchen and dining supplies, janitorial, and office supplies. Inventory includes the outside storage trailers on the Durango warehouse dock and the Madison Street warehouse.
- Food Services has not complied with the terms of the contract (BS99065R) for Mesa Cold Storage and conducted a physical inventory of freezer storage on an annual basis. Mesa Cold Storage, as per terms of the contract, furnishes Foods Services a monthly usage report, with inventory levels tracked by invoice process, not based on physical inventory.
- Neither Food Services, nor the Warehouse, performs a monthly inventory of Food Services' XX inventory stored at the Warehouse. Audit verified 25 XX inventory items valued at \$323,000 of the \$540,000 total XX inventory value. In addition, we tested documentation for receipts and distribution for six of 25 items sampled. No material exceptions were noted in either test.
- MCSO does not review inventories for obsolete or expired shelf life products.

Reconciliation and Segregation of Duties

- Food Services maintains segregation of duties over inventories at Durango, however, MCSO Warehouse uses employees, who receive and log inventories, to complete the Warehouse annual inventory.
- Food Services does not use actual distributions to calculate monthly ending inventory. Using distributions for inventory reconciliations would allow Food Services to identify inventory shortages.
- We were unable to determine if the Warehouse adequately reconciles annual inventory, as year-end supporting detail and approval for inventory count and adjustments were not on file.



Food Services stores inventories at five locations throughout the County.

Valuation

Inventory is valued as a unit cost, based on the invoice or other cost documentation. However, donated food is valued at zero. Lack of value attached to donated products understates the inventory value. Food Services uses 58 cents per pound to estimate the total value of donated food for the monthly Donated Food Procurement Report, but this same amount is not applied to donated inventory items. Additionally, Food Services lacks adequate documentation to support the 58 cent per pound value.

Non-Inventory

The Warehouse allows other County departments to store items that are not included in the Warehouse's formal inventory. These items are labeled "non-inventory." Storage agreements are made verbally and no documentation to evidence receipt or delivery of items is prepared. Audit contacted five County departments and asked them to confirm and identify goods stored at the Warehouse. Four departments reported stored goods.

- None of the four have documentation to support the warehouse receiving the goods
- Two of four departments report that they inventoried their goods within the last two years, but none have done so within the last 12 months
- Discrepancies exist between three of four departments' descriptions of their goods stored at the Warehouse, and Audit's observation of those goods

Inventory Risks

When adequate safeguards such as physical counts, monthly reconciliation and valuation, and segregation of duties are lacking, physical inventory may be misappropriated or be incorrectly valued, and variances may not be detected. Health and safety issues may result if food inventories lack verification for spoilage or obsolete shelf life dates.

Recommendation

MCSO should:

- A. Establish policies and procedures to adequately safeguard MCSO inventories and non-inventories. Policies should include effective segregation of duties and procedures to ensure obsolete or expired shelf life inventories are disposed. Responsibility for regular shelf life verification should be established.
- B. Implement effective inventory reconciliation procedures that include inventory distributions.
- C. Comply with terms of cold storage vendor contract and perform a minimum of one inventory per year.
- D. Develop a methodology to estimate average cost for donated food units and apply the average cost to donated food inventory valuation and calculation.

- E.** Establish responsibility and ensure that Food Services owned inventory, stored at the Warehouse, is counted and verified on a monthly basis, along with other Food Services inventories.
- F.** Contact departments that store goods at the Warehouse and have the departments inventory and document goods. The Warehouse and departmental personnel should each sign off inventories and maintain documentation to support non-inventory.

Issue 3 County Surplus

Summary

Surplus asset policies and procedures do not provide sufficient accountability for surplus assets sales, tracking of assets received, and accounting for special fund reporting requirements. Lack of accountability for assets increases the risk of misuse or theft. MCSO should review surplus procedures and controls.

Requirements

The Department of Finance Fixed Asset Manual requires departments disposing of surplus assets to send itemized lists to the Sheriff's Warehouse. The lists should include asset numbers, descriptions, and authorizing department and number. After the surplus sale occurs, a list of assets disposed should be sent to DOF.

The Warehouse has general written guidelines for accepting surplus delivery, for transferring surplus to another department and for surplus sale. Warehouse management created a Transfer Form for departments to send and receive surplus.

Surplus Process Review

County departments dispose of unwanted or aged assets by sending them to the Warehouse for sealed bid surplus sale, which warehouse personnel arrange on a regular basis. When Departments send surplus, they complete a Transfer Form and have the assets delivered to the Warehouse, where staff signs for receiving them. Departments may also obtain surplus assets from the Warehouse, for use by their departments, by completing a Transfer Form.



County departments send aged fixed assets to the Sheriff's Warehouse.

We selected five County departments for surplus asset disposition and transfer testing. The information on disposed assets was obtained from a combination of County financial system data downloads and departmental documentation to support surplus transferred. The intention was to trace data from Transfer Forms through surplus sale. An adequate audit trail does not exist to determine if all surplus assets received by the Warehouse are appropriately transferred to County departments, or received and sold, with proceeds credited to revenues.

The following elements of the surplus sale process contribute to the lack of an audit trail and prevent testing of the surplus sale process:

- With the increase in the fixed asset limit from \$1000 to \$5000, many assets are no longer carried on the County Fixed Asset System and have no control or tracking number
- Transfer forms do not always include fixed asset numbers. For the five departments reviewed, some Transfer Forms reflected assets numbers, but many forms showed no numbers and had only bulk quantities listed, such as ten computers, not individual items.
- The Warehouse accepts bulk load transfers. No count, inventory, or log is maintained for individual surplus items received, nor are items listed in any warehouse database
- Prior to surplus sales, County departments are allowed to review surplus. If departments can use items in their operation, they prepare a Transfer Form for items wanted. The Warehouse signs as losing asset and departments sign as gaining asset. The majority of the items taken have no asset numbers.
- Surplus is packaged and numbered for bulk lot sale. Lots may contain one type good or item, or mixed items; various departments' surplus may be combined. Sale lots are not detailed with number of assets included, but have only a generic description on Bid Sale Sheets.
- Departments with funding mandates have not requested assets be segregated and sold as separate lots with proceeds returned to them. Due to bulk sales and combining lots, all surplus receipts post to MCSO revenue instead of to the appropriate department fund.

Impact

Lack of tracking and accountability for assets increases the risk of misuse or theft. Some departments, such as Flood Control District or Maricopa County Department of Transportation, which do not have sales proceeds returned to their departments, may violate ARS funding mandates.

Recommendation

MCSO should:

- A. Evaluate the surplus disposal operation and determine if alternate procedures can be developed and implemented to reduce the labor-intensive operation against the small MCSO revenue return. Alternatives might include a contract for salvage by pound, or donations to benefit to charitable organizations.
- B. For departments with mandated funding, ensure surplus sale items are segregated and tagged, with sale proceeds credited to appropriate departments' funds.

Issue 4 Donated Food and Distribution

Summary

MCSO Distribution maintains documentation adequate to support the transportation and movement of goods and vehicles for its operation. MCSO appears to comply with Federal and State regulations for intrastate and interstate transportation of goods. Documentation for donated food and associated reports appears accurate.

Standards and Regulations

Distribution Services has established written policies and procedures for completion of daily operating activities.

Code of Federal Regulations (CFR) 49, Section 395, Hours of Services requires drivers to:

- Keep a drivers record of duty status that logs time spent driving and resting
- Drive no more than ten hours following eight hours of rest
- Be on duty no more than 15 hours following eight hours of rest

The Uniform Accounting Manual for Arizona Counties summarizes primary controls over inventories, including:

- Inventory should be valued on a unit cost and the cost flow assumptions should be consistent and reasonable
- Donated goods should be valued at fair market value plus costs necessary to ready them for intended use, or valued on other methodology to provide unit cost

Transportation and Donated Food Review

We judgmentally reviewed October through December 2002 Distribution Division activities and documentation for transportation of food products and supplies among MCSO locations, and for inter/intrastate travel to obtain food products. The audit sample included Distribution Work Plans, Dispatch Logs, Department of Transportation Driver Daily Logs, and weigh tickets. We also verified items listed on the Donated Food Report to original source invoices or bills of lading, and verified invoices and bills with original suppliers.

Distribution is responsible for routine deliveries among MCSO divisions, as well as pick-up or delivery of donated food goods from outside locations. On a daily basis, the Manager and supervisors develop a work plan for the following day to include all routine and special assignments. Each day Distribution drivers, who complete the assigned runs, enter their call number on the work plan to indicate job completion. Work plans were completed with driver call numbers, acknowledging daily work completion. No material exceptions were noted.

Dispatch Logs are maintained with each vehicle and used to record date, driver call number, and location traveled, along with time and mileage data. The logs provide source data for preparing several Distribution reports and tracking overall mileage for MCSO Distribution operation.

We reviewed and verified data on nine vehicles. We compared actual log miles to calculation of beginning to ending mileage for the month. Logs appear to be well maintained and drivers are careful to input data as required. No material exceptions were noted.

Distribution drivers drive out-of-state, and more than 10 hours, to secure donated food. Regulations require long haul drivers to adhere to driving requirements and to maintain Driver's Daily Log of drive/rest periods. Long haul drivers are also subject to weight limitation for their truck/tractor/trailer loads and may incur fines for overweight loads.

- We reviewed Driver Logs for December 1-15. Logs were on file, appear to be properly completed and reflected compliance with Department of Transportation rules and the Code of Federal Regulations (CFR). Signed Drivers Daily Logs and information for miles driven matched Special Duty Expense Sheets, with no exceptions noted.
- Long haul and in-state loads had weigh tickets as applicable. Hauls lacking weigh tickets were for in-state hauls or smaller loads that would not exceed weigh limitations.

MCSO receives 1 million pounds of donated food per month from many sources. Audit tested to ensure that types of donated goods and poundage on invoices and bills of lading were the actual goods, donated by the vendor, and receipted and signed for by MCSO.

- We judgmentally selected approximately 50 items from October and November 2002 Donated Food Procurement Reports and traced the items to copies of invoices and bills of lading, without exception.
- We judgmentally selected five donations, totaling 155,000 pounds from the same reports. Phone calls were made to each of five vendors to verify the donation source, the invoice and lading numbers, type and poundage of donation, and name of person receiving the goods. Four of five vendors confirmed donated food information without exception. The fifth vendor did not return calls, however, Audit was able to verify the source name and phone number through telephone information records.

Recommendation

None, for information only.

Issue 5 Vehicles and Expenses

Summary

We reviewed the MCSO Distribution vehicle and permit files, along with travel expenses. Distribution lacked documentation for three drivers' certifications for operating specific vehicles. Expense reimbursements were properly completed and approved, and P-card transactions were within established limits. Ineffective monitoring resulted in some reimbursements and transactions lacking adequate documentation. MCSO should strengthen controls over driver certifications and financial transactions.

Policies and Requirements

MCSO Vehicle Use Policy GE-4, Maricopa County (MC) Administrative policies 2302, 2309 and 2310 establish requirements for employees who operate County vehicles.

49 CFR Section 391 requires commercial drivers to possess proper licensing, obtain and provide medical certification to employers every 24 months and provide report of all accidents/violations within the past 36 months. Employers are required to maintain employee files with all applicable licensing and certificates, including road testing and notes of annual review.

MCSO Policy GD-21, Business Travel/Travel Expenses, MC

Administrative Policies 2313, 2317 and 2320 and Federal Publication 1542 establish requirements for employee travel and expense

reimbursement. MCSO employees are required to complete an Out of County Special Duty Expense Sheet travel authorization and expense form, with original receipts for any non per-diem expenditures. All travel expenses require proper approval. Reimbursements are made within established guidelines and the MCSO available budget.

Maricopa County Procurement Code establishes requirements for P-card use, including maintaining transaction logs and receipts, segregation of duties in reconciliation, and signatures of employees and supervisors on statements. Statements and the original receipts must be retained in the department for two years.



MCSO operates a fleet of trucks that travel both in and out of Arizona.

Vehicle and Expense Reviews

We reviewed MCSO Distribution (Distribution) and Risk Management Safety Office (RMSO) records for 16 Distribution drivers to ensure certifications comply with County and MCSO policies. Distribution maintains records of appropriate licensing and permits for current drivers, however, Distribution has no evidence to support RMSO issuing tractor/trailer certification for three current drivers.

Distribution has established procedures for reimbursement of driver travel expenses. MCSO Payroll maintains files of employee expenses and supporting documentation. We reviewed 153 Distribution reimbursement forms, representing \$3,400 of \$5,100 (67 per cent) of FY 2002 and FY 2003 reimbursements and found reimbursement forms are properly completed, approved by Distribution supervisors and MCSO Finance, and processed through MCSO payroll.

MCSO Finance has procedures that provide for appropriate segregation of duties and compliance with Maricopa County Procurement Card Policy. Drivers use P-card for fuel purchase and we verified transactions representing \$900 of \$1,600 (55 per cent) Distribution FY 2002 and FY 2003 total transactions. Transactions were appropriate and within established limits. However, in some instances, P-card and reimbursement activity was missing backup documentation, including transaction logs, transaction receipts, and P-card (SmartData) statements.

Recommendation

MCSO should:

- A.** Ensure Distribution monitors and obtains documentation so that drivers have applicable certifications on file; ensure the three current drivers are certified for specific vehicles operated.
- B.** Strengthen controls over Payroll and Distribution reimbursement and P-card transactions to ensure records are maintained for all transactions.

Department Response

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MARICOPA COUNTY SHERIFF'S OFFICE

JOSEPH M. ARPAIO
SHERIFF

RECEIVED

MAR 25 2003



INTERNAL AUDIT

Memorandum

TO: Ross Tate, County Auditor

FROM: Loretta Barkell, Deputy Chief
Financial Management Bureau

DATE: March 21, 2003

SUBJECT: **RESPONSE TO AUDIT OF SHERIFF'S OFFICE WAREHOUSE AND
FOOD SERVICE**

Attached is the Sheriff's Office response to the findings of the audit performed on the Warehouse and Food Services Operations. Of you require further information; please contact me at 256-5496.

SHERIFF'S OFFICE
AUDIT REPOSE
SHERIFF'S WAREHOUSE AND FOOD SERVICES AUDIT

Issue #1

Recommendation A: Prepare and submit applicable form(s) to DOF to establish a warehouse cash custodian and specified change fund amount and adhere to the established limit.

Response: Concur-in process. When the Sheriff's Office took over the Warehouse from Materials Management there was no change fund established. The practice was to withhold money from the sale deposit for a change fund. We will establish a change fund through County Department of Finance.

Target Completion Date: April 30, 2003.

Benefits/Costs: The Sheriff's Office will meet the County standards of cash management.

Recommendation B: Review County and AICPA policies and procedures for cash control and establish additional written policies and procedures, as needed, to ensure physical security is maintained over change fund and surplus sale cash receipts.

Response: Concur-in process. The current written cash policies will be updated.

Target Completion Date: April 30, 2003.

Benefits/Costs: The integrity of cash control will be maintained.

Recommendation C: Ensure surplus sale cash and checks are immediately counted and endorsed. Ensure deposits are immediately processed and match surplus sale receipts, and cash receipts are issued in sequential order showing cash or check notations.

Response: Concur-in process. Checks have always been stamped with a restrictive endorsement. Deposits will be made within three working days from the last payment date.

Target Completion Date: April 7, 2003.

Benefits/Cost: The integrity of cash control will be maintained.

Recommendation D: Ensure Bid and Receipt spreadsheets balance and reflect applicable sales receipt totals.

Response: Concur-complete. A total row has been added to the spreadsheet.

Target Completion Date: February 2003.

Benefits/Costs: Institutes a system of checks and balances and supports the cash management of the sales.

Recommendation E: Ensure sales tax is calculated and paid on gross sales, exclusive of taxes, for applicable bidders. Ensure sales tax is paid on a monthly basis.

Response: Concur-complete. A separate column for sales tax has been added.

Target Completion Date: February 2003.

Benefits/Cost: Ensures timely payment of taxes and will stop over payment of sales tax.

Issue #2

Recommendation A: Establish policies and procedures to adequately safeguard MCSO inventories and non-inventories. Policies should include effective segregation of duties and procedures to ensure obsolete or expired shelf life inventories are disposed. Responsibility for regular shelf life verification should be established.

Response: Concur. Within the next 3 months MCSO Food Services will be moving into a new Food Production Facility and Warehouse, included in this facility will be a new Food Service Management System. This new system will include an Inventory Control Program that will inform us when products are coming close to out of date.

Target Date: July 2003

Benefits/Costs: This Software Package is costing Maricopa County about \$400,000.00 and will ensure adequate inventory management and control.

Recommendation B: Implement effective inventory reconciliation procedures that include inventory distributions.

Response: Concur. This will be resolved when the move is made to the new facility and we begin to utilize the new Food Management System.

Target Date: July 2003

Benefits/Costs: As previously stated above, this new software package will allow us to ensure that all items are tracked and are received at the receiving facilities.

Recommendation C: Comply with terms of cold storage vendor contract and perform a minimum of one inventory per year.

Response: Concur. Food Services will comply with the contract. Within the next three months all Food items that are currently stored at the cold storage facility will be removed and stored at the new facility and properly inventoried. This will allow Food Services to ensure that all items are inventoried correctly.

Target Date: July 2003

Benefits/Costs: Once our Food Products are removed from the Cold Storage Facility and inventoried and stored at the new facility this will save Maricopa County about \$15,000.00 to \$17,000.00 per month in storage fees.

Recommendation D: Develop a methodology to estimate average cost for donated food units and apply the average cost to donated food inventory valuation and calculation.

Response: Concur. More research must be and is being done to determine the unit value of the thousands of different items that are donated to the MCSO yearly. USDA fresh vegetable and produce forecasts, Second Harvest, local Food Banks, food wholesalers, and the Association of Arizona Food Banks are a few of the sources that are being canvassed to determine the best method of pricing donated food. During this research it must also be determined if donated food units are priced by the pound or by the unit of issue. We will separate the donated food item from the regular purchased inventory and establish a separate inventory for donated food items based on the Fair Market Value Price per Pound. Our suggestion would be to continue to determine cost by poundage. We will do this on an annual basis and if staffing allows more frequently.

Target Date: July 30, 2003

Benefits/Costs: A more accurate method of placing a value on donated food and a reliable method of determining whether in some situations it would be more cost effective to purchase rather than use donated food.

Recommendation E: Establish responsibility and ensure that Food Services owned inventory, stored at the Warehouse, is counted and verified on a monthly basis, along with other Food Service inventories.

Response: Concur. Once the new facility comes on line all MCSO Food Service food inventories will be removed from the warehouse and stored and inventoried at the New Food Production and Warehouse Facility. Between now and opening, we will attempt (with the staff we have) to do monthly inventories of food stock.

Target Date: July 2003

Benefits/Costs: This will allow Food Service to Control Inventory loss.

Recommendation F: Contact departments that store goods at the Warehouse and have the departments' inventory and document goods. The Warehouse and departmental personnel should each sign off inventories and maintain documentation to support non-inventory.

Response: Concur. The inventory for items stored by other departments is the responsibility of that department. The Sheriff's Office will obtain a copy from the department performing the inventory.

Target Completion Date: August 1, 2003.

Benefits/Costs: Additional storage cost will be incurred by departments.

Issue #3

Recommendation A: Evaluate the surplus disposal operation and determine if alternate procedures can be developed and implemented to reduce the labor-intensive operation against the small MCSO revenue return. Alternatives might include a contract for salvage by pound, or donations to benefit to charitable organizations.

Response: Concur. We will look at other alternatives for disposing the County's surplus material.

Target Completion Date: December 31, 2003

Benefits/Cost: Unknown at this time.

Recommendation B: For departments with mandated funding, ensure surplus sale items are segregated and tagged, with sale proceeds credited to appropriated departments funds.

Response: Concur. When known we would segregate items that have been brought with special funds and deposit the proceeds back into the special fund. The problem is that departments do not always notify the warehouse that the items they are turning in are a special fund items. The Warehouse will make an effort to notify departments who require return proceeds to specifically request those proceeds.

Target Completion Date: April 15, 2002

Benefit/Cost: Money to be deposited into special funds.

Issue #5

Recommendation A: Ensure Distribution monitors and obtains documentation so that drivers have applicable certification on file; ensure the three current drivers are certified for specific vehicles operated.

Response: Concur. Two of the three drivers have completed all necessary training and documentation has been forwarded to RMSO. One driver is still in training.

Target Date: April 30, 2003

Benefits/Costs: RMSO and Distribution driver certification files will match which will result in more effective tracking of Commercial Driver Training.

Recommendation B: Strengthen controls over Payroll and Distribution reimbursement and P-card transactions to ensure records are maintained for all transactions.

Response: Concur. A log of all Out of County Expense transactions and when they are sent to MCSO Finance has been established and is in use at this time. Having only one e-mail address was causing problems when MCSO Finance searched to find where a P-card holder was assigned, without current assignment MCSO Finance had trouble

getting statements out to the P-card holders in a timely manner. A roster of P-card holders assigned to Distribution has been sent to Finance with the Supervisors e-mail address and will be updated as necessary. Now any P-card documents are e-mailed to the Supervisor without delay.


Target Date: January 3, 2003

Benefits/Costs: Timely completion of all P-card documentation. Improved tracking and documentation of Out of County Expenses and reimbursements.

Approved by:


for Joseph M. Arpaio
Sheriff

3/21/03
Date


Loretta M. Barkell
Sheriff's Office Chief Financial Officer

3/21/03
Date


David R. Smith
County Administrative Officer

3/27/03
Date